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Message Text

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C O N F I D E N T I A L STATE 081783

E.O. 11652: GDS

TAGS: EFIN, MPOL, NATO

SUBJECT: ECONADS: APRIL 6-7 MEETING ON INFLATION DEFENSE EXPENDITURES

REF: (A) USNATO 3050; (B) USNATO 3075

1. STRONGLY SUPPORT EFFORT TO REACH AGREEMENT BY ECONADS AND NATIONAL EXPERTS TO RECOMMEND TO DRC THE PROVISIONAL USE OF THE TWO-DEFLATOR METHOD FOR CALCULATION OF NATIONAL DEFENSE EXPENDITURES IN CONSTANT PRICES FOR NEXT DPQ CYCLE. IT WILL BE NECESSARY TO DEFINE WHAT PROVISIONAL MEANS. ECONADS SHOULD REACH CONSENSUS THAT: (1) EFFORTS TO REFINE AND IMPROVE THE TWO-DEFLATOR SYSTEM WILL CONTINUE, (2) CERTAIN LIMITATIONS ON THE QUALITY AND OFFICIAL USE OF THE TWO-DEFLATOR SYSTEM ARE ACCEPTED, (3) OTHER DEFLATORS PREFERRED BY CERTAIN COUNTRIES CAN ALSO BE REFERRED TO IN OFFICIAL DISCUSSIONS, AND (4) WORK WILL CONTINUE TO DEVELOP
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MORE PRECISE AND DETAILED DEFENSE DEFLATORS FOR ALL COUNTRIES.

2. SUGGEST THAT QUESTION OF THE NATURE OF FUTURE WORK TO CONTINUE TO DEVELOP A MORE PRECISE AND DETAILED SYSTEM OF DEFENSE DEFLATORS FOR ALL COUNTRIES BE ADDED TO AGENDA. U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS

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(BEA), JOINTLY WITH THE DEPARTMENT OF DEFENSE COMPTROLLER, IS COMPLETING A PROJECT FOR MEASURING QUARTERLY DOD PURCHASES IN CONSTANT PRICES WITHIN THE FRAMEWORK OF THE UNITED STATES NATIONAL INCOME AND PRODUCT ACCOUNTS (NIPA). A DETAILED FINAL REPORT ON THIS PROJECT IS NOW BEING PREPARED. AN OFFICIAL DEFENSE DEFLATOR IS TO BE PUBLISHED ON A QUARTERLY BASIS AS PART OF THE NIPA BEGINNING IN JULY 1978. THE OUTPUT OF THIS PROJECT ALSO WILL RESULT IN IMPROVING THE ACCURACY OF THE U.S. TWO DEFLATOR DATA BASED ON CENTRAL GOVERNMENT EXPENDITURES.

3. U.S. EXPERTS WILL PROVIDE COPIES OF A PRELIMINARY REPORT ON THE BEA/DOD DEFLATOR PROJECT AND A BRIEFING BASED ON THE DRAFT FINAL REPORT WHICH MAY NOT BE APPROVED AND RELEASED BEFORE JULY 1978. THEY THEN PLAN TO PROPOSE THAT A MORE EXTENDED SEMINAR BE RECOMMENDED TO THE ECONADS, TO BE HELD AFTER THE FINAL REPORT HAS BEEN RELEASED AND CIRCULATED TO MEMBER COUNTRIES' DEFENSE MINISTRIES AND NATIONAL INCOME AND PRODUCT ACCOUNT AUTHORITIES. BOTH GROUPS WOULD BE INVITED TO ATTEND.

4. A FEW COUNTRIES ALREADY HAVE A HIGHLY DEVELOPED AND DETAILED SYSTEMS OF DEFENSE DEFLATORS. WE EXPECT THESE TO CONTINUE TO BE USEFUL. OTHER COUNTRIES FACE A LONGER-TERM TASK IN IMPROVING THEIR NIPA. THAT IS ONE REASON WHY CONFIDENTIAL

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THE SIMPLIFIED TWO-DEFLATOR SYSTEM IS A NECESSARY AND USEFUL ARRANGEMENT. HOWEVER, ALL COUNTRIES MUST PLAN AHEAD AND BEGIN THE PROCESS OF MAKING DETAILED DEFENSE DEFLATORS A PART OF THEIR NIPA SYSTEMS IF THE RESULTS OF THESE EFFORTS ARE TO BE AVAILABLE IN THE FUTURE.

5. GEORGE WILL ARRIVE ON 4 APRIL AND TAKE TRAIN TO METROPOLE; WILL DEPART MORNING OF 8 APRIL. WAITE WILL ARRIVE 5 APRIL, DEPART 7 APRIL. GEORGE WILL MEET WITH U.S. ECONAD ON 5 APRIL AND, IF APPROPRIATE, WITH MR. BILLY. COOPER

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